

State of
Utah
COMPREHENSIVE
ANNUAL FINANCIAL
REPORT



For the Fiscal Year Ended June 30, 2003

State Of Utah

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2003

CONSTITUTIONAL OFFICERS OF THE STATE OF UTAH

Olene S. Walker..... Governor
Gayle F. McKeachnie..... Lt. Governor
Auston G. Johnson, CPA..... State Auditor
Edward T. Alter, CPA..... State Treasurer
Mark L. Shurtleff..... Attorney General
L. Alma "Al" Mansell..... President of the Senate
Martin R. Stephens..... Speaker of the House
Christine M. Durham..... Chief Justice, Supreme Court

OTHER STATE OFFICIALS

S. Camille Anthony..... Executive Director, Dept. of Administrative Services
Kim S. Thorne, CPA..... Director, Division of Finance
Richard K. Ellis..... Director, Office of Planning and Budget
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Wayne L. Welsh, CPA..... Legislative Auditor General
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ACKNOWLEDGMENTS

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Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.



State of Utah
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For the Fiscal Year Ended June 30, 2003

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Olene S. Walker
Governor

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November 14, 2003

To the Citizens, Governor,
and Members of the Legislature
of the State of Utah:

It is our pleasure to present the 2003 Comprehensive Annual Financial Report of the State of Utah in accordance with Section 63A–3–204 of the *Utah Code*. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State's management. To the best of our knowledge and belief, the enclosed data accurately presents the State's financial position and results of operations in all material respects in accordance with generally accepted accounting principles (GAAP). We believe that all disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

The Report. The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section contains a list of principal officials, this transmittal letter, and the state organization chart. The Financial Section contains the State Auditor's report; Management's Discussion and Analysis (MD&A); the Basic Financial Statements, which includes the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, and fiduciary funds, together with notes to the Basic Financial Statements; Required Supplementary Information, which includes budgetary comparison schedules and information about infrastructure assets; and Supplementary Information, which includes combining financial statements and schedules for individual funds. The Statistical Section provides a history of selected financial and demographic information.

This report includes all funds of the State of Utah and includes all departments, agencies, and other organizational units governed by the Legislature and/or the constitutional officers of the State. In addition to these *primary government* activities, this report includes information related to component units that are financially accountable to the State. Although such information is provided in this report, the MD&A and Basic Financial Statements focus on the primary government and its activities. Separately issued financial statements are available from the significant discretely presented component units and should be read to obtain a better understanding of their financial conditions.

Management's Discussion and Analysis (MD&A). The discussion and analysis beginning on page 14 provides an overview and analysis of the State's Basic Financial Statements. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it.

Internal Control. The State's systems of internal control over assets recorded in the accounting system have been designed to provide reasonable, but not absolute, assurance of safeguarding assets against loss from unauthorized use or disposition and to ensure the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

Independent Auditors. In compliance with state statute, an annual financial audit of the "State Entity" is completed each year by the Utah State Auditor's Office in conjunction with other independent audit firms. Their audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The State Auditor's report on the Basic Financial Statements is included in the Financial Section of this report.

Federal regulations also require the State to undergo an annual “Single Audit” in conformance with the Federal Single Audit Act of 1984, as amended, and the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Information related to the Single Audit, including the schedule of expenditures of federal awards, audit findings and recommendations, summary of prior audit findings, and the State Auditor’s report, is issued in a separate report and will be available at a later date.

PROFILE OF THE GOVERNMENT

Structure. As shown in the organizational chart on page 10, state government is divided into three separate branches: legislative, executive, and judicial. The duties of each branch are outlined in the *Constitution of Utah*, which can be amended only by a majority vote of the State’s citizens, and in the *Utah Code*, which can be amended by the Legislature or by citizen initiatives. State government services provided to citizens include building and maintaining roads; providing public safety, health, and environmental protection services to protect the general welfare of the state’s citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

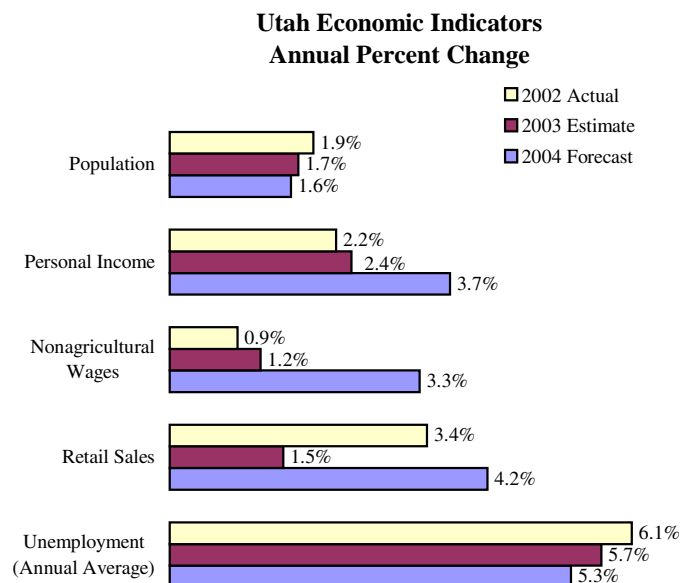
Budgetary Control. The *Constitution of Utah* requires that budgeted expenditures not exceed estimated revenues and other sources of funding, including beginning fund balances. Annually, the Governor is required to submit a balanced budget to the Legislature. The Legislature authorizes expenditures in the annual *Appropriations Acts*. The Acts also identify the sources of funding for budgeted expenditures. In the event actual revenues are insufficient to cover budgeted expenditures, the Governor must order budget reductions, or she may call a special session of the Legislature to address budget issues. Adjustments to the budget may also be made throughout the year for changes in departmental or fund revenues so that departments and funds will not end the fiscal year in a deficit position.

Spending Limitations. As explained in the notes to Required Supplementary Information on page 105, the State has an appropriation limitation statute that limits the growth in state appropriations to relative increases in population, personal income, and inflation. The statute also caps the state-mandated property tax rate at the level set July 1, 1989. For the fiscal year ended June 30, 2003, the State was \$313.1 million below the appropriations limitation. The State is currently below the fiscal year 2004 appropriations limitation by \$396.9 million.

ECONOMIC CONDITIONS AND OUTLOOK

Economy. Nationally, corporate before-tax profits fell 0.7 percent in 2002 but are expected to rise 9.4 percent through the end of 2003 as market signals begin to improve. The national unemployment rate is expected to remain near 6.1 percent for the next two years, up from 5.8 percent in 2002. Utah’s economic indicators have mirrored these national trends, though the State seems to have fared better overall than many states across the nation.

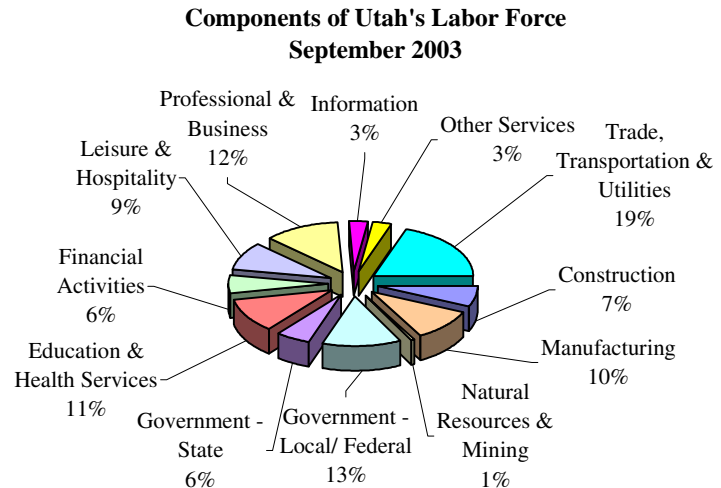
Utah’s unemployment rate is expected to decline to 5.7 percent during 2003 before falling to 5.3 percent in 2004. This is a modest decrease from the 6.1 percent 2002 rate. With continued high unemployment, growth in personal income and nonagricultural wages is expected to be a modest 3.7 percent and 3.3 percent, respectively, in 2004. Although retail sales are estimated to rise 1.5 percent in 2003 and 4.2 percent in 2004, these estimates are well below the average growth of the past decade. The value of home construction is projected to reach an all-time high of \$2.8 billion during 2003. Housing is expected to soften during 2004, but remain at near record highs as low interest rates continue to drive construction. While Utah’s economy has shown signs of improvement through increased employee productivity gains, job growth will be required for Utah to enter into a new period of economic expansion.



Source: Council of Economic Advisors

Industries. The number of nonfarm wage and salaried jobs has remained unchanged in 2003 but is expected to rise 1.3 percent in 2004. Since September 2002, the most significant percentage increases were experienced in education and health services, and financial activities (finance and real estate services) at 2.6 percent and 2.2 percent, respectively. It is expected that the education and health services sector will continue to grow when the overall economic recovery returns; however, rapidly rising health care costs, unless curbed, may ultimately slow growth in this sector. The financial activities sector's growth is largely due to historically low mortgage rates that precipitated a large amount of real estate transactions and mortgage activity. The most significant declines were in natural resources and mining, and manufacturing at 4.2 percent and 1.8 percent, respectively. Manufacturing lost 2,100 jobs as durable goods producers trimmed their workforce by 3.5 percent, offset by modest increases in jobs of non-durable goods producers. Professional and business services, a key sector of high-wage and knowledge-based jobs has shown recent signs of improvement and is currently down a modest 0.5 percent for 2003. Growth in government employment was entirely within federal and local positions, mostly due to the new school year adding jobs to local school districts. State government jobs have declined slightly as a result of budget cuts and will likely see further reductions through 2004.

Outlook. While Utah's economy is expected to remain flat or only moderately improve in the near term, the State's industrial structure continues to be well balanced and diversified with a broad base of businesses and a solid technology and transportation infrastructure. Combined with a young and highly educated workforce, the State is positioned well for positive long-term economic growth.



MAJOR INITIATIVES

Public Education. With an expected influx of approximately 100,000 new students by the year 2010, and absent new methods of funding that do not overtax our citizens, continued stagnation in the economy has the potential to severely impact funding that is available for education. With this in mind, the Governor and Legislature have instituted programs designed to make the State's education system more efficient with the limited resources available while holding schools and administrators accountable for the resources they receive.

Competency-Measured Learning. Senate Bill 154 of the 2003 General Session directs the State Superintendent of Public Instruction to: focus on core academics, increase graduation requirements, ensure that high school seniors are progressing in challenging courses, and implement competency standards for progress and graduation. This initiative is early in its development and the State Superintendent, Governor, and Legislature are expected to continue to address its implementation and funding challenges in 2004.

New Jobs. Utah continues to be seriously impacted by the national economic downturn. There are many citizens who are unemployed and struggling to meet their financial obligations.

Health Informatics. During the past fiscal year, the Governor announced that funding through the State's Industrial Assistance Program will be provided to two companies to create 1,000 new jobs over the next three years in a field called health informatics. This field includes medical billing services, electronic data exchange, electronic medical accounting, medical transcription services, management services, and purchasing support.

GenData. The State has also provided funding through the Industrial Assistance Program to a biotechnology/human genetics project called GenData. GenData will manage the Utah Population Database which includes vital statistics, clinical and genetic information from volunteer participants, and historical information concerning Utah families. In time, the information provided by this project is expected to be instrumental in curing disease, speeding the delivery of new developments to market, and provide significant opportunity for adding thousands of jobs to the biotechnology sector of Utah's economy.

Health Care. With the rising cost of health care, it is becoming increasingly more difficult for Utahns to find affordable health insurance. Approximately 199,000 Utahns or 8.7 percent of the population lacks health insurance coverage, according to a 2001 Utah Department of Health, Health Status Survey. About 145,000 of these individuals are adults. In addition to the basic Medicaid Program, the Utah Department of Health administers two related health programs to combat this problem.

Primary Care Network (PCN). On July 1, 2002 the Utah Department of Health launched the PCN which provides health coverage for eligible adults ages 19 to 64 who meet income guidelines and cannot afford other insurance coverage. Approximately 17,000 adults have enrolled in the program since it began. Maximum enrollment in the program is 25,000. The PCN was made possible through a federal Medicaid waiver. Utah is the only state with federal authority to implement this health care benefit program. The State and federal government provide approximately \$4.8 million and \$11.2 million, respectively, to the program. Beginning August 1, 2003, the PCN began receiving applications for the PCN Covered at Work Program. Covered at Work will assist up to 6,000 low-income, employed adults, who have access to health insurance through their employer by reimbursing a portion of their health insurance premium.

Children's Health Insurance Pool (CHIP). CHIP provides low cost health insurance to eligible Utah children of families who meet income guidelines and would otherwise not have access to affordable health care. In the five years since CHIP's inception, approximately 61,000 Utah children have been enrolled in the program, with an approximate current enrollment of 24,000 children. CHIP is funded by the State and Federal government, with some cost sharing from enrollees through minimal co-payments and premiums. CHIP receives four federal dollars for each state dollar, with all of CHIP's state funding coming from a portion of the Tobacco Master Settlement Agreement. As a result of House Bill 72 of the 2003 General Session, the State has begun providing an additional \$1.5 million to the CHIP program. This brings annual state funding to approximately \$7.0 million. This funding increase will allow an additional 4,000 children to enroll in the program.

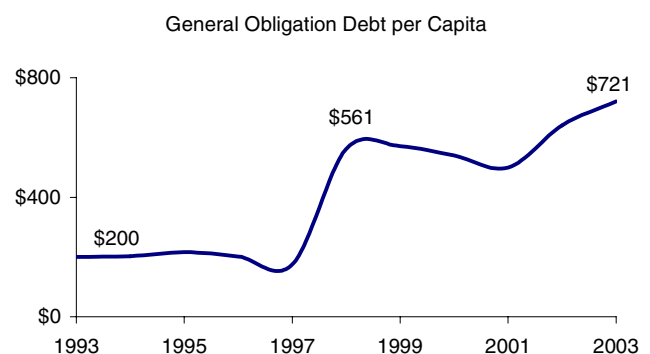
E-Government. Under the direction of the State's Chief Information Officer, the State's information technology professionals, department heads and others continue to make great progress on achieving the Governor's vision of using technology to make state government services more efficient and accessible. The State currently offers well over 100 services with live 24/7 customer support on its Web site Utah.gov. More services are being routinely added in an effort to reach the Governor's goal of having all appropriate state government services online by 2004.

2003 Best of Web. The State's commitment to digital government has not gone unnoticed. Utah.gov was recently named the best state government Web portal in America by the Center for Digital Government, an international research and advisory institute on information technology in government and education.

FINANCIAL INFORMATION

Cash Management. As further explained in Notes 1, 3, and 4 to the Basic Financial Statements, cash is controlled by the State Treasurer or by other administrative bodies as specified by law, and investments are made in compliance with the State Money Management Act (*Utah Code*, Title 51 Chapter 7). All cash deposited with the State Treasurer by state entities is managed in pooled investment funds to safeguard assets and to maximize interest earnings. The Treasurer invests the cash, including the cash float, in short-term securities and other investments such as certificates of deposit, obligations of the U.S. Treasury, commercial paper, and repurchase agreements. Certain investment pools may invest in corporate bonds and equity securities.

Debt Administration. The State's general obligation bonded debt jumped significantly in 1998 due to issuing bonds for highway construction, mostly for rebuilding I-15 in Salt Lake County. Total general obligation debt remained fairly stable from 1999 through 2001. In fiscal year 2002 and 2003, under budget constraints coupled with a low interest rate environment, the State elected to increase its debt by issuing more bonds for highway and building projects that otherwise would have been funded from current revenues. During fiscal year 2003, the State also refunded or advance refunded \$413.675 million of general obligation bonds to take advantage of historically low interest rates. More information about the State's long-term debt is found in Note 10 to the Basic Financial Statements.



Risk Management. The State is self-insured against certain property and liability claims. The Legislature established the Risk Management Fund to pay for commercial insurance or to accumulate reserves for the self-insured portion of certain property and liability risks. Revenues are generated from premiums charged to state departments, institutions of higher education, and local school districts. The property self-insurance limits for fiscal year 2003 were \$1 million per claim, with an annual aggregate of \$2.5 million per policy year. Generally, claims over the self-insured limits are covered by policies with private insurance companies.

Pension Plans. The Utah Retirement Systems (URS) defined benefit pension systems' combined total net assets decreased by \$1.1 billion, or 8.9 percent during calendar year 2002. The decrease was primarily due to the downturn in equity markets and increasing benefit payments. Operations of the pension systems continue to be managed based on sound actuarial funding principles and this decline does not impair the pension funds ability to pay promised benefits to retirees. Although contribution rates for the State and other participating governments may increase in the near term, the pension systems are poised for the opportunities and growth an improving national economy will bring.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the State of Utah for its comprehensive annual financial report for the fiscal year ended June 30, 2002. This was the eighteenth consecutive year the State has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate. We are committed to this effort, and we intend to maintain a highly qualified and professional staff to make this certification possible.

CONCLUSION

We hope this report provides data useful in evaluating the financial activity of the State of Utah. We express our appreciation to the budget and accounting officers throughout state government and to the State Auditor's Office for their dedicated efforts in assisting us in the preparation of this report.

Sincerely,

A handwritten signature in black ink, reading "Kim S. Thorne". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Kim S. Thorne, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Utah

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

State of Utah Organization Chart

